

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Beacon Health System, Inc. and Affiliated Corporations
Years Ended December 31, 2022 and 2021
With Reports of Independent Auditors

Ernst & Young LLP



Beacon Health System, Inc. and Affiliated Corporations

Consolidated Financial Statements
and Supplementary Information

Years Ended December 31, 2022 and 2021

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Report of Independent Auditors

The Board of Directors
Beacon Health System, Inc. and Affiliated Corporations

Opinion

We have audited the consolidated financial statements of Beacon Health System, Inc. and Affiliated Corporations (the Corporation), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation at December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation’s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst + Young LLP

March 9, 2023

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Balance Sheets
(In Thousands)

	December 31	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 70,805	\$ 104,694
Short-term investments	32,935	37,885
Patient accounts receivable	217,013	236,710
Due from third-party payors	34,409	23,466
Other receivables	37,603	13,448
Other current assets	1,060	1,828
Inventories	31,329	33,022
Prepaid expenses	22,502	23,238
Total current assets	<u>447,656</u>	<u>474,291</u>
Assets limited as to use:		
Internally designated investments	800,871	969,876
Restricted cash	5,708	5,983
Externally designated investments – insurance trust	2,760	2,926
Board-designated endowment	29,406	33,591
Endowment and temporarily restricted investments	10,152	10,696
	<u>848,897</u>	<u>1,023,072</u>
Property and equipment:		
Land	68,572	71,843
Buildings and improvements	928,917	894,759
Furniture and equipment	523,444	486,044
Construction-in-progress	54,537	37,207
	<u>1,575,470</u>	<u>1,489,853</u>
Less allowances for depreciation and amortization	845,442	785,609
	<u>730,028</u>	<u>704,244</u>
Deferred charges and other assets	83,553	73,834
Total assets	<u>\$ 2,110,134</u>	<u>\$ 2,275,441</u>

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Balance Sheets (continued)

(In Thousands)

	December 31	
	2022	2021
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 73,905	\$ 82,081
Accrued salaries and benefits	58,252	62,727
Accrued expenses	944	3,435
Other current liabilities	1,076	1,816
Due to third-party payors	7,279	68,294
Current maturities of long-term debt	16,533	13,289
Total current liabilities	<u>157,989</u>	231,642
Noncurrent liabilities:		
Long-term debt, less current maturities	288,829	270,165
Other liabilities	14,254	17,802
Interest rate and basis swaps	11,031	16,884
	<u>314,114</u>	304,851
Total liabilities	472,103	536,493
Net assets:		
Without donor restrictions	1,620,864	1,720,691
With donor restrictions	17,167	18,257
Total net assets	<u>1,638,031</u>	1,738,948
Total liabilities and net assets	<u><u>\$ 2,110,134</u></u> <u>\$ 2,275,441</u>	

See accompanying notes.

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Statements of Operations
and Changes in Net Assets
(In Thousands)

	Year Ended December 31	
	2022	2021
Unrestricted revenue, gains, and other support		
Patient service revenue	\$ 1,205,384	\$ 1,121,775
Other revenue	88,619	67,286
Net assets released from restrictions used for operations	1,911	1,228
	1,295,914	1,190,289
Expenses		
Salaries and wages	639,985	547,246
Employee benefits	122,874	125,135
Supplies and other	329,135	300,598
Professional fees and purchased services	148,003	131,874
Depreciation and amortization	63,345	62,711
Interest	6,867	6,594
	1,310,209	1,174,158
(Loss) income from operations	(14,295)	16,131
Nonoperating (expenses) income		
Investment (losses) income, net	(92,938)	125,184
Unrealized gains on swap transactions, net	5,853	1,789
Realized loss on swap termination	-	(60)
Implied contribution gain on acquisition	-	22,167
Gain on lease termination	39	-
Gain on bond refunding	-	5,030
Revenue and gains (less than) in excess of expenses	(101,341)	170,241

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Statements of Operations
and Changes in Net Assets (continued)
(In Thousands)

	Year Ended December 31	
	2022	2021
Net assets without donor restrictions		
Revenue and gains (less than) in excess of expenses	\$ (101,341)	\$ 170,241
Net assets released from restrictions used for capital purposes	1,499	309
Net assets released from restriction by donor and other	15	—
(Decrease) increase in net assets without donor restrictions	<u>(99,827)</u>	<u>170,550</u>
Net assets with donor restrictions		
Purpose-restricted contributions	3,705	3,127
Investment (losses) income	(1,509)	1,310
Net assets released from restrictions used for operating and capital purposes	(3,286)	(1,537)
(Decrease) increase in net assets with donor restrictions	<u>(1,090)</u>	<u>2,900</u>
Change in net assets	(100,917)	173,450
Net assets at beginning of year	1,738,948	1,565,498
Net assets at end of year	<u>\$ 1,638,031</u>	<u>\$ 1,738,948</u>

See accompanying notes.

Beacon Health System, Inc. and Affiliated Corporations

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended December 31	
	2022	2021
Operating activities		
Change in net assets	\$ (100,917)	\$ 173,450
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	63,345	62,711
Unrealized gains on swap transactions, net	(5,853)	(1,789)
Gain on bond refunding	–	(5,030)
Loss on swap termination	–	60
Gain on implied contribution	–	(22,167)
Gain on lease termination	(39)	–
Unrealized losses (gains) on investments	112,416	(71,901)
Restricted contributions and investment income	(2,196)	(4,437)
Changes in operating assets and liabilities:		
Patient accounts receivable	19,697	(16,110)
Other receivables, inventories, and prepaid expenses	(20,958)	(11,281)
Other assets	(9,694)	(3,613)
Investments – trading	61,484	(74,493)
Accounts payable, accrued salaries and benefits, and accrued expenses	(15,882)	10,923
Due to/from third-party payors, net	(71,958)	29,449
Other long-term liabilities	(3,719)	(33,902)
Net cash provided by operating activities	25,726	31,870
Investing activities		
Asset acquisition	–	8,829
Additions to property and equipment	(87,910)	(67,463)
Net cash used in investing activities	(87,910)	(58,634)
Financing activities		
Principal payments on long-term debt and other debt obligations	(11,346)	(78,925)
Proceeds from long-term debt	32,220	73,033
Payment of bond issue costs	–	(250)
Restricted contributions and investment income	2,196	4,437
Net cash provided by (used in) financing activities	23,070	(1,705)
Decrease in cash and cash equivalents and restricted cash	(39,114)	(28,469)
Cash and cash equivalents and restricted cash at beginning of year	148,562	177,031
Cash and cash equivalents and restricted cash at end of year	\$ 109,448	\$ 148,562
Reconciliation of cash and cash equivalents and restricted cash to the consolidated balance sheets:		
Cash and cash equivalents	\$ 70,805	\$ 104,694
Short-term investments	32,935	37,885
Restricted cash included in assets limited as to use	5,708	5,983
	\$ 109,448	\$ 148,562
Supplemental disclosure of cash flow information		
Interest paid	\$ 6,703	\$ 8,200

See accompanying notes.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (Dollars in Thousands)

December 31, 2022

1. Organization and Basis of Consolidation

The accompanying consolidated financial statements represent the accounts of Beacon Health System, Inc. (the Corporation) and its various affiliated corporations under the control of the Corporation (collectively, BHS). The Corporation is an Indiana not-for-profit corporation exempt from federal income tax under Internal Revenue Code (the Code) Section 501(a) as an organization described in Section 501(c)(3) and a public charity, as described in Section 509(a)(3). The Corporation is the sole corporate member of the following entities:

- Elkhart General Hospital, Inc. (EGH)
- Memorial Hospital of South Bend, Inc. (MHSB)
- Beacon Health Foundation, Inc. (BHF), formerly Memorial Health Foundation, Inc.
- Beacon Medical Group, Inc. (BMG), formerly Memorial Health System, Inc.
- Beacon Health Ventures, Inc. (BHV)
- Community Occupational Medicine, Inc. (COM)
- CHA ACO, LLC (CHA ACO)
- Beacon Health, LLC (BH)
- Community Hospital of Bremen, Inc. (CHB)
- BPL Acquisitions, LLC
- Beacon Specialty Surgery, LLC (BSS)
- Three Rivers Health System, Inc. (TRH)

In October 2021, the Corporation became the sole corporate member of TRH.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Basis of Consolidation (continued)

EGH, MHSB, CHB, BMG, TRH, and BHF are also exempt from federal income tax under Section 501(a) of the Code as organizations described in Section 501(c)(3) and as public charities described in Sections 509(a)(1) and 509(a)(2). BHV and COM are Indiana for-profit corporations. EGH is a 365-licensed-bed (254 available) acute care community hospital located in Elkhart, Indiana. MHSB is a 657-licensed-bed (409 available) acute care trauma center located in South Bend, Indiana. CHB is a 24-bed critical access hospital located in Bremen, Indiana. TRH is a 60-bed short-term acute-care facility located in Three Rivers, Michigan. EGH, MHSB, CHB, and TRH (collectively, the Hospitals) provide inpatient, outpatient, and 24-hour emergency care services for residents of Three Rivers, Michigan, and Elkhart; South Bend; and Bremen, Indiana, and the surrounding communities.

TRH includes Integrated Health Systems (IHS) and Three Rivers Health Foundation (TRHF). IHS is a for-profit company whose purpose is to employ physicians who work at TRH as contracted employees. TRHF is a nonprofit organization whose purpose is to fund projects of TRH. As of December 31, 2022, TRHF was dissolved, all funds were distributed and future fundraising activity will run through BHF.

BHF is organized primarily to promote and encourage philanthropic activities for the support of the Corporation and its affiliates.

BHV manages the taxable operations of the Corporation, including home care and other non-acute health care services.

COM primarily promotes population health management.

CHA ACO coordinates high-quality care for Medicare beneficiaries participating in the Medicare Shared Savings Programs.

BMG operates the physician enterprise of the Corporation.

BH improves and expands delivery and quality of health care services for the Corporation.

BPL Acquisitions, LLC is a real estate holding company established to purchase land.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Basis of Consolidation (continued)

BSS, formerly Memorial Spine and Neuroscience Center, LLC, previously a joint venture that is now fully owned by BMG, is an outpatient surgery center specializing in neurologic, spine, and pain control procedures.

All significant intercompany accounts and transactions have been eliminated in consolidation.

The Corporation owns a less-than-majority ownership or controlling interest in the following:

- 50% interest in Community Health Alliance LLC, an Indiana physician hospital organization
- 54% interest in LaPorte Medical Group Surgery Center, LLP, an outpatient surgery center
- 0% interest in Valparaiso Medical Development, LLC, a professional medical building venture. Sale of 50% ownership interest occurred in June 2022.
- 25% interest in Magnetic Resonance Imaging, LLC, an imaging and radiology center
- 33% interest in Michiana Information Health Network, Inc., a health information exchange
- 40% interest in Elkhart Health, Fitness & Aquatics, Inc., a health fitness and aquatics center
- 10% interest in Alick's Home Medical Equipment, Inc., a home medical equipment provider
- 54% interest in South Bend Specialty Surgery Center, LLC, an outpatient surgery center. Although the Corporation owns a majority financial interest in this entity, it does not possess a controlling interest in the entity, and therefore does not consolidate the LLC.
- 50% interest in Franciscan Beacon Health, an acute care hospital located in LaPorte, Indiana
- 51% interest in ASC Ventures LLC, an ambulatory surgery center located in Granger, Indiana

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Basis of Consolidation (continued)

Aggregate financial information relating to these investments is as follows:

	<u>2022</u>	<u>2021</u>
Assets	\$ 119,265	\$ 139,493
Liabilities	29,226	39,197
Net income (loss)	1,339	(371)

At December 31, 2022 and 2021, the Corporation has \$59,367 and \$46,430, respectively, related to these equity method investments recorded in deferred charges and other assets on the consolidated balance sheets.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

Cash Equivalents and Restricted Cash

All investments that are not limited as to use with a maturity of three months or less at the time of acquisition are reflected as cash equivalents. Cash equivalents include checking accounts, money market accounts, corporate credit card accounts, and petty cash. The carrying value of cash equivalents approximates fair value. Highly liquid debt instruments with original, short-term maturities of less than 90 days that are included as part of assets limited as to use are excluded from cash equivalents as they are commingled with longer-term investments. Amounts included in restricted cash include cash held within investments and represent funds set aside within the investment portfolio based on management's policy or contractual arrangements.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Short-Term Investments

Short-term investments include cash reinvested on a daily basis, accrued interest on investments, and money expected to be used in less than a year. Also included in short-term investments are restricted and unrestricted investment donations that are in the process of being liquidated.

Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Directors (the Board) for future capital improvements and community health enhancement initiatives that the Board, at its discretion, may subsequently use for other purposes. In addition, assets limited as to use also include assets held by trustees under self-funded insurance agreements, investments externally designated under indenture or donor restrictions, and money expected to be used as part of BHS's community benefit.

Investments

The Corporation classifies its investments as trading. Under a trading classification, all unrestricted realized and unrealized gains and losses are included in revenue and gains (less than) in excess of expenses.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices for those or similar investments. Dividend and interest income, realized gains and losses, and changes to fair values of investments are reported as nonoperating investment income on the consolidated statements of operations and changes in net assets. Nonoperating investment income is reported net of internal and external investment costs.

Investments in alternative investments, primarily hedge fund of funds, that invest in marketable securities, commingled funds, and private equity funds based on the net asset value of the investments. The calculated net asset values are provided by the respective fund managers and are based on historical costs, appraisals, and other estimates that require varying degrees of judgment. Management has utilized the best available information for reported values, which in some

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

instances are valuations as of an interim date not more than 90 days before year-end. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and may differ from the value that would have been used had a ready market for such investments existed. Resulting differences could be material. The financial statements of the hedge funds, commingled funds and private equity funds are audited annually. Equity earnings related to these alternative investments are included in nonoperating investment income. The Corporation's holding reflects net contributions to the hedge fund and an allocated share of realized and unrealized investment income and expense.

Inventories

Inventories are stated at the lower of cost (average cost method) or market.

Unamortized Bond Issuance Costs

Costs incurred in connection with the issuance of long-term debt are deferred and amortized over the term of the related financing, which approximates the effective interest method.

Fair Value of Financial Instruments

The Corporation's carrying amount for its financial instruments, which include cash and cash equivalents, short-term investments and assets limited as to use, accounts receivable, debt, and interest rate and basis swaps at December 31, 2022 and 2021, approximates fair value. The estimated fair value amounts have been determined by the Corporation using available market information and appropriate valuation methodologies.

Property and Equipment

Property and equipment are carried at cost, except for donated assets, which are recorded at fair value at the date of donation. Allowances for depreciation and amortization are computed primarily utilizing the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. Depreciation expense for the years ended December 31, 2022 and 2021 was \$63,345 and \$62,711, respectively.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Lease Right of Use Assets and Liabilities

The Corporation records a lease right of use (ROU) asset (that is, an asset that represents the Corporation's right to use the leased asset for the lease term) for leases with a term greater than 12 months and that do not meet the criteria as a sales-type lease or a direct financing lease.

The Corporation records financing lease ROU assets at the value of principal payments, adding initial direct costs and prepaid lease payments, reduced by any lease incentives. Financing ROU assets are amortized using the straight-line method over the related lease term. Amortization of financing lease ROU assets is included on the accompanying consolidated statements of operations and changes in net assets in depreciation and amortization expenses.

Asset Impairment

The Corporation considers whether indicators of impairment are present and performs the necessary tests to determine whether the carrying value of an asset is appropriate. Impairment write-downs are recognized in operating expenses at the time the impairment is identified. There were no impairments of long-lived assets in 2022 or 2021.

Deferred Charges and Other Assets

Included in deferred charges and other assets are intangible assets, goodwill, and investments in unconsolidated affiliates.

The acquisition of a business entity can result in the recording of intangible assets. Acquired definite-lived intangible assets (excluding goodwill) are amortized over the useful life of the assets. Goodwill is carried at acquisition value, less any impairment reductions.

The carrying value of goodwill amounted to approximately \$12,038 at December 31, 2022 and 2021, and is included in deferred charges and other assets on the consolidated balance sheets. Goodwill is assessed for impairment on an annual basis at the reporting unit level. If the fair value of the reporting unit is less than the carrying value, an impairment loss equal to the difference between the implied fair value of the reporting unit goodwill and the carrying value of the reporting unit goodwill is recognized. There was no impairment of goodwill in 2022 or 2021.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

The Corporation accounts for its investments in less than majority-owned and controlled affiliates using the equity method of accounting. Income from these investments is reflected in other revenue on the consolidated statements of operations and changes in net assets.

Endowment Investments

Income is received directly by BHF from BHF board-designated quasi-endowment investments and quasi-endowments with restriction and is included in investment income within both net assets with and without donor restrictions. EGH receives a portion of the income from investments in endowments directly as they are released from restriction. These endowment investments have perpetual existence.

Contributions

Unconditional pledges to give cash and other assets are reported at fair value at the date the pledge is received to the extent estimated to be collectible by the Corporation.

Net Assets Without Donor Restrictions

Net assets without donor restrictions are available for use at the discretion of the Board and/or management for general operating purposes.

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time, and/or purpose restrictions.

The Corporation reports pledges, gifts of cash, and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restrictions and reported on the consolidated statements of operations and changes in net assets as net assets released from restrictions. Assets released from restrictions that are used for the purchase of property and equipment or capital purposes are reported on the consolidated statements of operations and

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

changes in net assets as additions to net assets without restrictions. Resources restricted by donors for specific operating purposes are reported in revenue without restrictions, gains, and other support to the extent expended within the period.

Some net assets have been restricted by donors to be maintained by the Corporation in perpetuity. In accordance with the restriction, a majority of the investment income and investment gains or losses from these net assets are restricted by the donor for a specific purpose. A specified portion of income earned by the net assets is released from restrictions and used for operations each year and, therefore, is included on the consolidated statements of operations and changes in net assets as other revenue.

Patient Service Revenue and Patient Accounts Receivable

Patient service revenue and patient accounts receivable are reported at the amount that reflects the consideration to which BHS expects to be entitled in exchange for providing patient care. BHS has agreements with various third-party payors that provide for payments to BHS at amounts different from its established rates. Third parties include Medicare, Medicaid, managed health care plans, and other commercial plans. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. These amounts include estimated adjustments under certain reimbursement agreements with third-party payors, which are subject to audit by the applicable administering agency. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined (see Note 4). The Hospitals provide care to all patients regardless of their ability to pay. Charity care provided is excluded from patient service revenue (see Note 5).

Performance Indicator

The consolidated statements of operations and changes in net assets include a performance indicator, revenue and gains in (less than) excess of expenses. Changes in net assets without restrictions, which are excluded from revenue and gains in (less than) excess of expenses, consistent with industry practice, include contributions of long-lived assets, including assets acquired using contributions, which, by donor restrictions, were to be used for the purpose of acquiring such assets.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Allocation of Costs

The Corporation's ability to exercise control over consolidated entities could result in the entities having a financial position or operating results that are significantly different from those that would have been obtained if the entities were autonomous. The manner of allocating certain shared and centralized costs, such as accounts payable processing, information technology support, and other Corporation-managed administration costs, is determined by the Corporation utilizing Internal Revenue Service transfer pricing guidance and is not audited. Alternate methods of accounting for these cost allocations may produce significantly different operating results for each of the consolidated entities.

Interest Rate and Basis Swaps

All interest rate and basis swaps are measured at fair value based on techniques consistent with the market approach. None of the swaps are designated as hedging instruments; therefore, the unrealized gains or losses on the fair value of the swaps are included in revenue and gains (less than) in excess of expenses on the consolidated statements of operations and changes in net assets.

Asset Retirement Obligations

The Corporation accounts for the fair value of legal obligations associated with long-lived asset retirements by recognizing an expense and accreting a liability over the life of the asset to cover potential legal obligations at the end of the asset's useful life. The asset retirement obligation primarily relates to future asbestos remediation related to buildings on MHSB's campus, as well as ground/soil remediation associated with the removal of underground fuel tanks. The carrying value of the obligation amounted to approximately \$5,383 and \$5,211 at December 31, 2022 and 2021, respectively, and is reflected in other liabilities on the consolidated balance sheets.

New Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides temporary optional expedients and exceptions to GAAP guidance for contract modifications and hedge accounting to ease the accounting burden related to the transition from the London Interbank Offered Rate (LIBOR) and

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

other rates to alternative reference rates. This ASU is effective for BHS as of March 12, 2020 through December 31, 2024. BHS is currently evaluating the effects of the standard on its consolidated financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU affects presentation and disclosure of contributed nonfinancial assets on the statement of operations and changes in net assets and notes to the financial statements. This ASU is effective for BHS beginning January 1, 2022. This ASU was adopted by BHS with no material impact to its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU clarifies that implementation, setup, and other up-front costs related to cloud computing agreements should be accounted for under ASC 350-40. This standard requires entities in a cloud computing agreement that is a service contract to capitalize certain implementation costs. On January 1, 2021, this ASU was adopted by BHS with no material impact to its consolidated financial statements.

3. Acquisition

BHS accounts for business combinations in accordance with Accounting Standards Codification Topic (ASC) 958-805, *Not-for-Profit Entities: Business Combinations*, under which the purchase of an acquired business is allocated to its identifiable assets and liabilities based on estimated fair values. The excess of the consideration paid over the amount allocated to the assets and liabilities, if any, is recorded to goodwill. For acquisitions in which no consideration is paid, the fair value of the net assets acquired is recorded as an inherent contribution to nonoperating income. BHS typically engages third-party valuation specialists to assist in the fair value determination of certain assets and liabilities.

Effective October 1, 2021, BHS entered into a combination agreement (the Agreement) with TRH to become the sole corporate member of TRH. The purpose of the Agreement was to provide BHS with greater presence in the surrounding market, while promoting greater access to patients in the market. Additionally, the Agreement provided TRH with the financial stability to maintain its presence in the local community and provide additional services through access to capital and BHS’s expansive specialty medical services.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

3. Acquisition (continued)

This transaction was accounted for as an acquisition, and an implied contribution was recognized equal to the net assets acquired. No cash or other consideration was transferred.

The acquisition-date fair value of identifiable assets and liabilities of TRH as of October 1, 2021 consisted of the following:

Cash and cash equivalents	\$	8,829
Accounts receivable		4,404
Other current assets		1,740
Investments		15,569
Property and equipment		16,887
Other assets		217
Current liabilities		(19,451)
Other liabilities		(2,448)
Long-term debt		(3,580)
Implied contribution	\$	<u>22,167</u>

The valuation of assets and liabilities was completed in 2021. The fair values of accounts receivable, other current assets, and current liabilities are generally equal to the carrying value because of their short-term nature. The fair value of long-term debt approximates the carrying value based on the terms of the obligations. The fair value of property and equipment was determined by an independent third-party valuation utilizing market-based valuation methods, which are generally Level 3 fair value measurements.

Following are the operating results and changes in net assets attributable to TRH since the date of acquisition included on the accompanying consolidated statement of operations and changes in net assets for October 1, 2021 through December 31, 2021:

Total operating revenue	\$	23,540
Operating income		4,603
Revenue and gains in excess of expenses		4,610
Change in unrestricted net assets		26,777

Operating expenses from October 1, 2021 through December 31, 2021 were \$18,937, which included costs related to the integration of TRH into BHS, information technology, and other shared services.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Revenue and Accounts Receivable

Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Corporation. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Corporation's hospitals receiving inpatient acute care services. The Corporation measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Corporation uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on the historical collection trends and other analyses, the Corporation believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Revenue and Accounts Receivable (continued)

The Corporation determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by explicit and implicit price concessions, including contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with the Corporation's policy, and/or implicit price concessions based on the historical collection experience of patient accounts.

The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.
- **Medicaid:** Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.
- **Other:** Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Disproportionate Share Hospital (DSH) payments by the state of Indiana (the State), if eligible, are paid according to the fiscal year of the State, which ends on June 30 of each year, and are based on the cost of uncompensated care provided by the DSH providers during their respective fiscal year ended during the State's fiscal year. In 2016, MHSB qualified for the State DSH program for State fiscal years (SFYs) 2016 and 2017. In 2018, MHSB qualified for the State DSH program for SFYs 2018 and 2019. In 2021, MHSB qualified for the State DSH program for SFYs 2021 and 2022. MHSB recorded patient service revenue of \$42,226 and \$41,955 for the years ended

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

4. Revenue and Accounts Receivable (continued)

December 31, 2022 and 2021, respectively, related to the State DSH program. The amounts recorded for prior state fiscal years represent changes in estimates from prior period estimates. The following is a summary by SFY:

	<u>2022</u>	<u>2021</u>
SFY 2023	\$ 8,531	\$ –
SFY 2022	9,386	7,676
SFY 2021	5,361	11,300
SFY 2020	18,948	4,033
SFY 2019	–	18,946
	<u>\$ 42,226</u>	<u>\$ 41,955</u>

In April 2014, the Indiana Hospital Assessment Fee program (HAF) was approved by the Centers for Medicare & Medicaid Services (CMS) retroactively for the period July 1, 2013 to June 30, 2017. The current state budget extended HAF through June 30, 2023. Under HAF, Indiana hospitals receive additional federal Medicaid funds for the state’s health care system, administered by the Indiana Family and Social Services Administration. HAF includes both a payment to the Hospitals from the state (included in patient service revenue) and an assessment (included in supplies and other expenses) against the Hospitals, which is paid to the state the same year. BHS recognized HAF revenues and assessments as follows:

	<u>Year Recognized</u>		
	<u>2022</u>	<u>2021</u>	<u>Total</u>
Year ended December 31, 2022, HAF: Revenue	\$ 123,674	\$ –	\$ 123,674
Year ended December 31, 2022, HAF: Assessments	(47,586)	–	(47,586)
Year ended December 31, 2021, HAF: Revenue	–	113,274	113,274
Year ended December 31, 2021, HAF: Assessments	(171)	(41,397)	(41,568)
Year ended December 31, 2020, HAF: Assessments	619	1,061	1,680
	<u>\$ 76,536</u>	<u>\$ 72,938</u>	<u>\$ 149,474</u>

HAF revenue is included in patient service revenue, and HAF assessments are included in supplies and other expenses on the consolidated statements of operations and changes in net assets.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Revenue and Accounts Receivable (continued)

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Corporation. In addition, the contracts the Corporation has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

4. Revenue and Accounts Receivable (continued)

Estimates for DSH, settlements with third-party payors, and other contractual adjustments can differ from actual reimbursement based on the results of subsequent reviews, government regulatory changes, and cost report audits. For the years ended December 31, 2022 and 2021, patient service revenue has been increased by approximately \$23,147 and \$27,037, respectively, for changes in estimates of third-party payor settlements related to prior years. There were no other significant changes to the judgments used to determine the transaction price in prior periods.

Management has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the payors and service lines that render services to patients. Patient service revenue recognized for the years ended December 31 from major payor sources is as follows:

Payor	2022	2021
Anthem	\$ 255,979	\$ 222,686
Commercial	310,973	324,118
Medicare	354,840	332,500
Medicaid	274,865	227,977
Self-pay	8,727	14,494
Patient service revenue	<u>\$ 1,205,384</u>	<u>\$ 1,121,775</u>

The composition of patient care service revenue based on service lines the Corporation operates for the years ended December 31 is as follows:

Service lines	2022	2021
Hospitals	\$ 1,041,354	\$ 970,765
Medical Group	150,665	137,484
Health Ventures	3,263	2,978
Other	10,102	10,548
Patient service revenue	<u>\$ 1,205,384</u>	<u>\$ 1,121,775</u>

Patient service revenues related to the Medicare program are approximately 29% and 30% of patient service revenue for the years ended December 31, 2022 and 2021, respectively. Patient service revenues related to the Medicaid program are approximately 23% and 20% of patient service revenue for the years ended December 31, 2022 and 2021, respectively. Amounts reported under the Anthem payor contract account for approximately 21% and 20% of patient service revenue for the years ended December 31, 2022 and 2021, respectively.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Revenue and Accounts Receivable (continued)

Credit is granted without collateral to patients, most of whom are local residents and are insured under third-party arrangements. Major components of patient accounts receivable include approximately 24% from Medicare, approximately 11% from Medicaid, and approximately 22% from Anthem at December 31, 2022, and approximately 24% from Medicare, approximately 7% from Medicaid, and approximately 23% from Anthem at December 31, 2021.

The Corporation has elected the practical expedient and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Corporation's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that services will be one year or less. However, the Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The Corporation has applied the practical expedient and all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Corporation otherwise would have recognized is one year or less in duration.

Other Revenue

Other revenues consist of revenues associated with retail services, such as pharmacy and cafeteria, ancillary services and strategic initiatives with entities with less than majority ownership or noncontrolling interests (joint ventures) by the Corporation, health and fitness membership, and leased space rental agreements with third parties. Revenues associated with pharmacy services are estimated as prescriptions are filled and collected by patients. Retail sales are recorded at the time of service. Revenues associated with Joint Ventures are recognized on the equity method. Health and fitness revenue is recognized over the membership period and leased space rental revenue is recognized over the term of the lease.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

4. Revenue and Accounts Receivable (continued)

The composition of other revenue for the years ended December 31 is as follows:

Service lines	2022	2021
Retail service revenue	\$ 18,657	\$ 16,502
Joint Venture income (loss)	4,533	(984)
Grant revenue*	32,502	14,606
Health and fitness revenue	7,897	5,780
Rental revenue	2,973	2,847
Other revenue	22,057	28,535
	\$ 88,619	\$ 67,286

* Grant revenue includes federal CARES Act and FEMA funding. CARES Act funding included for the twelve months ended December 31, 2022 and 2021, was approximately \$4,722 and \$11,305, respectively. FEMA funding included for the the twelve months ended December 31, 2022 and 2021 was approximately \$21,036 and \$0, respectively.

As of December 31, 2022 and 2021, the Corporation received \$4,722 and \$11,305, respectively, in grant payments from the U.S. Department of Health and Human Services from the Provider Relief Fund established under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which has been recognized as revenue and included in other operating revenue within the consolidated statements of operations and changes in net assets. Payments from the Provider Relief Fund are intended to cover patient care lost revenues and qualified expenses, net of other reimbursed sources, attributed to COVID-19 and are not required to be repaid provided the recipient attests to and complies with the terms and conditions of the grant funds. The recognition of this support falls under the grant accounting guidance of accounting principles generally accepted in the United States of America. This guidance requires all significant terms and conditions to have been met for recognition to occur. Management of the Corporation will continue to monitor compliance with the terms and conditions of the CARES Act grant funds and the impact of the pandemic on the Corporation's consolidated results of operations.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Revenue and Accounts Receivable (continued)

As of December 31, 2022, the Corporation received \$21,036 of funding from the Federal Emergency Management Agency (FEMA) for the reimbursement of costs incurred in response to the COVID-19 pandemic, which included purchase of medical supplies and equipment, personal protective equipment, and overtime for medical staff providing clinical treatment of COVID-19 patients. FEMA reimbursement has been recorded as other revenue for the year ended December 31, 2022.

In addition, the Corporation received approximately \$81,470 from CMS as an advance payment for Medicare services during 2020. The funds were provided through the expansion of the Medicare Accelerated and Advance Payment Program to ensure providers and suppliers have the resources needed to combat the COVID-19 pandemic. The advances were recouped by Medicare withholding future fee-for-service payments for claims until such time as the full accelerated payment was recouped. Recoupment began in April 2021 and as of December 31, 2022 had been paid in full.

The CARES Act also permits employers to defer the employer portion of social security taxes. Employers were required to remit one half of the amount deferred by December 31, 2021, and the remaining half by December 31, 2022. The Corporation had deferred approximately \$14,284 of these taxes, of which \$6,816 was paid back in 2021 and \$7,468 was paid back in 2022.

5. Charity Care

Patients who meet the Corporation's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Charity care represents unreimbursed costs for services rendered at a reduced fee, or no fee, due to the inability of the patient to pay for services. The amount of the charity care provided was approximately \$3,746 and \$3,316 for the years ended December 31, 2022 and 2021, respectively, at estimated cost. The Corporation utilized a cost to charge ratio methodology for the cost analysis. The only reimbursement for financial assistance care received by the Corporation is determined through a settlement process in the Hospitals' annual Medicare cost report filing. Financial assistance care reimbursement was approximately \$518 and \$469 for the years ended December 31, 2022 and 2021, respectively.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Retirement Plans

The Corporation maintains a defined contribution employee retirement and savings plan for all employees who have attained 21 years of age and have completed 12 months of continuous service. The Corporation's contributions are based on 100% of the employee's contributions, up to 4% of the employee's salary. Both employee and corporation contributions are subject to certain limitations. The benefit plan expense for the years ended December 31, 2022 and 2021, was approximately \$15,289 and \$14,969, respectively.

7. Lease Obligations

The Corporation has leases for certain equipment. The lease term begins at the lease commencement date and is determined on that date based on the noncancelable term of the lease. The Corporation's financing lease terms are generally five years, ending at various dates from 2023 through 2026. The financing lease agreements have a fixed lease payment, with a purchase option at the end of the agreement.

The Corporation is using a discount rate of 1.06% for financing leases, which is the rate that is embedded in the lease agreements. The total financing lease payments that will be incurred over the life of the leases are \$5,036, of which \$5,022 is amortization and \$14 is interest.

The Corporation's operating lease was terminated in January 2022. The original lease term was 13 years, with the obligation ending in March 2026. The results of the lease termination were that \$3,150 was written off of the operating ROU asset, \$3,189 was written off for the operating lease liability, and \$39 was recognized as a gain on the lease termination.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Lease Obligations (continued)

The current portion of the operating and financing ROU is included in other current assets and the long-term portion of the operating and financing ROU is included in deferred charges and other assets. The current portion of the operating and financing lease liability is included in other current liabilities and the long-term portion of the operating and financing lease liability is included in other long-term liabilities. The table below sets forth a summary of the Corporation's ROU assets and lease liabilities at December 31:

	2022	2021
Current portion of operating ROU asset	\$ —	\$ 703
Long-term portion of operating ROU asset	—	2,447
Total operating ROU assets	<u>\$ —</u>	<u>\$ 3,150</u>
Current portion of operating lease liability	\$ —	\$ 690
Long-term portion of operating lease liability	—	2,499
Total operating lease liability	<u>\$ —</u>	<u>\$ 3,189</u>
Current portion of financing ROU asset	\$ 1,060	\$ 1,125
Long-term portion of financing ROU asset	1,488	2,548
Total financing ROU assets	<u>\$ 2,548</u>	<u>\$ 3,673</u>
Current portion of financing lease liability	\$ 1,077	\$ 1,126
Long-term portion of financing lease liability	1,527	2,590
Total financing lease liability	<u>\$ 2,604</u>	<u>\$ 3,716</u>

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Lease Obligations (continued)

At December 31, 2022, the minimum future lease payments under these leases are as follows:

	<u>Financing</u>	<u>Total</u>
2023	\$ 1,031	\$ 1,031
2024	872	872
2025	443	443
2026	72	72
2027	—	—
Thereafter	—	—
	<u>\$ 2,418</u>	<u>\$ 2,418</u>

Operating lease expense for the years ended December 31, 2022 and 2021 was approximately \$0 and \$795, respectively, and is included in supplies and other expenses.

Amortization expense for financing leases at December 31, 2022 and 2021, was \$1,125 and \$676, respectively, and is included in depreciation and amortization expense. Interest expense was not material for the years ended December 31, 2022 and 2021.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

8. Long-Term Debt

Long-term debt consists of the following at December 31:

	2022		2021
Tax-exempt bonds issued on behalf of BHS by the Indiana Finance Authority:			
BHS Revenue Bonds, Series 2018, bearing interest at a variable rate of 3.84% at December 31, 2022, due in varying annual installments on December 15 of each year through 2043, with a mandatory tender date of December 15, 2028	\$ 30,000	\$	31,250
BHS Revenue Refunding Bonds, Series 2017A, bearing interest at variable rates with a floating fixed interest rate swap of 3.46% at December 31, 2022, due in varying annual installments on August 15 of each year through 2033, with a mandatory tender date of May 1, 2023	36,020		36,280
BHS Revenue Refunding Bonds, Series 2017B, bearing interest at a variable rate of 3.46% at December 31, 2022, due annually on May 1 of each year through 2033	34,525		35,800
BHS Revenue Bonds, Series 2013A, bearing interest at fixed rates of 5.00%, due in varying annual installments on August 15 of each year through 2023	6,380		12,420
BHS Revenue Bonds, Series 2021, bearing interest at a taxable fixed rate of 1.78% through May 2023, at which point the bonds will convert to tax exempt, bearing interest at a fixed rate of 1.46%, due in varying annual installments on October 15 of each year through 2034	60,685		61,730
Tax-exempt bonds issued on behalf of BHS by the Hospital Authority of St. Joseph County:			
BHS Revenue Bonds, Series 2022, bearing interest at a fixed rate of 2.17% until June 2037. This is due in varying annual installments on June 30 through 2052.	32,220		–
BHS Revenue Bonds, Series 2016, bearing interest at a fixed rate of 1.39%, due in varying annual installments through 2046	44,525		46,260
BHS Revenue Bonds, Series 2013C, bearing interest at fixed rates between 3.75% and 5.00%, due in varying annual installments on August 15 of each year through 2044	46,130		46,130
Loan payable to Bank of America, dated October 22, 2021, monthly payments of principal and interest at a fixed rate of 1.94%. Due November 27, 2031, and secured by personal property	3,277		3,614
Loan payable to Bank of America, dated September 29, 2021, monthly payments of principal and interest at a fixed rate of 1.46%. Due September 3, 2031, and secured by personal property	9,979		11,040

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

8. Long-Term Debt (continued)

Long-term debt consists of the following at December 31:

	<u>2022</u>	<u>2021</u>
Loan payable to City of Three Rivers, State of Michigan, dated February 14, 2020, yearly payments of principal and interest at a fixed rate of 3.0%. Due March 15 each year through 2030	\$ —	\$ 108
Other obligations	3,271	396
	307,012	285,028
Bond issuance costs	(1,231)	(1,135)
Unamortized premium	(419)	(439)
	305,362	283,454
Less current portion	16,533	13,289
	\$ 288,829	\$ 270,165

In May 2022, the Hospital Authority of St. Joseph County, on behalf of BHS, issued revenue bonds Series 2022 (2022 Bonds) in the principal amount of \$150,000. The interest rate for 2022 Bonds is a fixed rate at 2.17% due in annual installments through 2052. The proceeds from 2022 Bonds will be used to fund capital projects. As of December 31, 2022, \$32,220 was drawn on these bonds.

In September 2021, the Indiana Finance Authority, on behalf of BHS, issued revenue refunding bonds Series 2021 (2021 Bonds) in the principal amount of \$61,730. The 2021 Bonds are taxable bonds that will convert to tax-exempt bonds after May 18, 2023. The 2021 Bonds are private placement bonds, bearing interest at a fixed monthly interest rate. The proceeds from 2021 Bonds were utilized to refund a portion of the BHS Revenue Bonds, Series 2013A.

In December 2018, the Indiana Finance Authority, on behalf of BHS, issued revenue bonds Series 2018 (2018 Bonds) in the principal amount of \$35,000. The 2018 Bonds are private placement bonds, bearing interest at a variable monthly interest rate. Proceeds from the 2018 Bonds were utilized to fund existing and future capital projects.

In September 2017, the Indiana Finance Authority, on behalf of BHS, issued revenue refunding bonds Series 2017A (2017A Bonds) in the principal amount of \$37,240. The 2017A Bonds are private placement bonds, bearing interest at a variable monthly interest rate. The proceeds from 2017A Bonds were utilized to refund the MHSB Revenue Bonds, Series 2008A.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

8. Long-Term Debt (continued)

In September 2017, the Indiana Finance Authority, on behalf of BHS, issued revenue refunding bonds Series 2017B (2017B Bonds) in the principal amount of \$40,210. The 2017B Bonds are private placement bonds, bearing interest at a variable monthly interest rate. The proceeds from 2017B Bonds were utilized to refund the EGH Revenue Bonds, Series 2008.

In August 2016, the Hospital Authority of St. Joseph County issued Hospital Revenue Bonds, Series 2016 (Series 2016 Bonds), on behalf of the Obligated Group. The Series 2016 Bonds are \$50,000 private placement bonds bearing interest at a fixed rate of 1.39%, due in varying annual installments through 2046. Proceeds from the Series 2016 Bonds were utilized to fund existing and future capital projects.

In May 2013, the Indiana Finance Authority, on behalf of BHS, issued revenue refunding bonds Series 2013A (2013A Bonds) in the principal amount of \$116,705. The interest rate for 2013A is a fixed rate varying between 2.00% and 5.00%. The proceeds from 2013A Bonds were utilized to refund the MHSB Revenue Bonds, Series 2008B; MHSB Revenue Bonds, Series 1998A; and EGH Revenue Bonds, Series 1998. In September 2021, a portion of the 2013A Bonds was refunded; the unrefunded amount of 2013A Bonds was \$6,380 and \$12,420 as of December 31, 2022 and 2021, respectively.

In May 2013, the Hospital Authority of St. Joseph County, on behalf of BHS, issued revenue bonds Series 2013C (2013C Bonds) in the principal amount of \$46,130. The interest rate for 2013C Bonds is a fixed rate varying between 3.75% and 5.00%. The proceeds from 2013C Bonds were utilized to refund the MHSB Revenue Bonds, Series 2007. The remaining proceeds are set aside in externally designated investments for future projects.

The Corporation is the Obligated Group Agent for the Obligated Group under the Master Trust Indentures. The Obligated Group includes the Corporation, MHSB, EGH, and BMG. MHF and BHV constitute designated affiliates under the terms of the Master Trust Indentures. The bonds are secured by pledged revenues of the Obligated Group and contain various covenants, including achievement of specified financial ratios and limitations on additional debt.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

8. Long-Term Debt (continued)

The loan agreements require maintenance of certain debt service coverage ratios, limit additional borrowings, and require compliance with various other restrictive covenants. The Corporation was in compliance with all covenants during 2022 and 2021.

The Corporation entered into a loan with Bank of America, dated October 22, 2021, to refinance TRH's debt with the United States Department of Agriculture (USDA) and Horizon Bank. The loan with Bank of America bears interest at a fixed of 1.94%. TRH's outstanding loan with Bank of America is secured by personal property of EGH.

TRH entered into a loan with the City of Three Rivers, State of Michigan, dated February 14, 2020, in the amount of \$131. The loan with the City of Three Rivers bears interest at a fixed of 3.00%. TRH's outstanding loan with the City of Three Rivers is secured by an agreement between TRH and the City of Three Rivers and a mortgage. The loan was paid in full in March 2022.

The Corporation entered into a loan with Bank of America, dated September 29, 2021, to refinance CHB's debt with Lake City Bank and the USDA. The loan with Bank of America bears interest at a fixed of 1.46%. CHB's outstanding loan with Bank of America is secured by personal property on MHSB, EGH, and CHB.

CHB's loan with Lake City Bank, dated August 4, 2004, bore interest at a variable rate equal to the prime rate, minus 0.50%, adjusted annually with a floor of 3.50% and a ceiling of 8.50%. CHB's loan with Lake City Bank, which was secured by virtually all assets of CHB, was refinanced on September 29, 2021 with Bank of America.

CHB obtained a direct construction loan, dated April 25, 2005, from the USDA in the amount of \$12,000. The loan bore interest at a fixed of 4.25% to be repaid over 40 years. The loan, which was secured by the real property, was refinanced on September 29, 2021 with Bank of America.

Interest capitalized for the years ended December 31, 2022 and 2021 was approximately \$742 and \$394, respectively.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

8. Long-Term Debt (continued)

Maturities of long-term debt and other obligations for each of the next five years are as follows:

2023	\$	16,533
2024		13,917
2025		14,126
2026		16,374
2027		16,633

9. Line of Credit

The Corporation has a \$2,000 revolving line of credit with 1st Source Bank. The line of credit was renewed and extended through May 31, 2022. Of the \$2,000 revolving line of credit, \$50 for the years ended December 31, 2022 and 2021 was segregated for the beneficiary of a self-insurance trust. Conversely, \$1,950 was available to be drawn upon at December 31, 2022 and 2021. No draws were taken by the Corporation in either 2022 or 2021. The interest rate on the line of credit is the prime rate minus 0.50%. No amounts were outstanding on the line of credit as of December 31, 2022 or 2021.

10. Interest Rate and Basis Swaps

MHSB has various derivative instruments related to long-term debt obligations to manage the exposure on interest rates and MHSB's interest expense. Through the use of derivative financial instruments, MHSB is exposed to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of the derivative contract is positive, the counterparty owes MHSB, which creates credit risk to MHSB. When the fair value of the derivative contract is negative, MHSB owes the counterparty, and there is no credit risk to MHSB at that point in time. MHSB minimizes the credit risk in derivative instruments by entering into transactions that require the counterparty to post collateral for the benefit of the fair value of the derivative contract. Market risk is the adverse effect on the value of the financial instrument that results from a change in interest rates. The management of market risk associated with interest rate changes is defined in MHSB's Swap Management Policy (the Policy). The Policy includes continuous monitoring of market conditions, emergent opportunities, and risks. Swap management is meant to be long term in nature, and any modifications to the program are reviewed for the long-term costs and benefits.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

10. Interest Rate and Basis Swaps (continued)

Management also mitigates risk through periodic reviews of its derivative position in the context of its total blended cost of capital.

In June 2021, MHSB terminated one PNC Bank swap with a fair value of \$370. MHSB realized a net loss of \$60, which is included in nonoperating income on the consolidated statement of operations and changes in net assets.

The derivative instruments require adherence to collateral posting thresholds. For the years ended December 31, 2022 and 2021, the mark-to-market valuation on the swap portfolio was below the required collateral posting threshold of \$30,000 with Morgan Stanley, \$25,000 with Wells Fargo, and \$25,000 with Deutsche Bank.

The following is a summary of the outstanding fixed payor rate swaps as of December 31, 2022:

Origination Date	Notional Amounts	MHSB Receives	MHSB Pays	Maturity Date
March 2006	\$ 36,020	61.90% of 30-day LIBOR plus 0.31%	3.5150%	August 2033
March 2003	6,200	65.00% of 30-day LIBOR plus 0.45%	3.8100	August 2034

The following is a summary of the outstanding fixed payor rate swaps as of December 31, 2021:

Origination Date	Notional Amounts	MHSB Receives	MHSB Pays	Maturity Date
March 2006	\$ 36,280	61.90% of 30-day LIBOR plus 0.31%	3.5150%	August 2033
March 2003	6,450	65.00% of 30-day LIBOR plus 0.45%	3.8100	August 2034

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

10. Interest Rate and Basis Swaps (continued)

The following is a summary of the outstanding basis rate swaps as of December 31, 2022:

Origination Date	Notional Amounts	MHSB Receives	MHSB Pays	Maturity Date
July 2010	\$ 42,000	74.600% of 1M LIBOR	SIFMA tax-exempt index + 0.0715%	January 2041
July 2009	63,000	74.600% of 1M LIBOR	SIFMA tax-exempt index + 0.1700%	January 2041

The following swap agreement was terminated in June 2021 and is not included in the table above:

Origination Date	Notional Amounts	MHSB Receives	MHSB Pays	Maturity Date
March 2001	\$ 140,000	75.125% of 3M LIBOR	SIFMA tax-exempt index	March 2031

The following is a summary of the outstanding basis rate swaps as of December 31, 2021:

Origination Date	Notional Amounts	MHSB Receives	MHSB Pays	Maturity Date
July 2010	\$ 42,000	74.600% of 1M LIBOR	SIFMA tax-exempt index + 0.0715%	January 2041
July 2009	63,000	74.600% of 1M LIBOR	SIFMA tax-exempt index + 0.1700%	January 2041

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

10. Interest Rate and Basis Swaps (continued)

Net interest paid or received under the above swap agreements is included in interest expense. The net differential for MHSB as a result of the swap agreements amounted to payments of approximately \$797 and \$1,433 for the years ended December 31, 2022 and 2021, respectively, which is reflected as an increase in interest expense. The swap agreements do not qualify for hedge accounting; therefore, the change in the fair value of the swap agreements is recorded as an unrealized nonoperating gain of approximately \$5,853 and \$1,789 for the years ended December 31, 2022 and 2021, respectively.

The fair value of derivative instruments at December 31 is as follows:

	Consolidated Balance		
	Sheet Location	2022	2021
Derivatives not designated as hedging instruments	Interest rate and basis swaps	<u>\$ (11,031)</u>	<u>\$ (16,884)</u>
		<u>\$ (11,031)</u>	<u>\$ (16,884)</u>

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

11. Liquidity and Availability of Resources

As of December 31, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital expenditures not financed with debt, were as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 70,805	\$ 104,694
Short-term investments	32,935	37,885
Internally designated investments	800,871	969,876
Restricted cash	5,708	5,983
Externally designated investments – insurance trust	2,760	2,926
Board-designated endowment	29,406	33,591
Endowment investments	10,152	10,696
Total financial assets	<u>952,637</u>	1,165,651
Less amounts unavailable for general expenditure due to:		
Restricted bond funds	(15,929)	(424)
Restricted by donors with purpose restrictions	(16,767)	(17,831)
Restricted by donors in perpetuity	(400)	(426)
Restricted for insurance trust	(2,760)	(2,926)
Board-designated endowment	(29,406)	(33,591)
Add liquidity resources:		
Unused line of credit	<u>1,950</u>	1,950
Total financial assets available for general expenditure within one year	<u>\$ 889,325</u>	<u>\$ 1,112,403</u>

BHS has various investments to maintain and strengthen its financial well-being and liquidity. The management of investments is defined by the Corporation's investment policy and is under the direction of an investment committee consisting of external advisors and BHS employees with the knowledge and understanding to undertake the monitoring of market conditions, emergent opportunities, and risks to help maximize the financial strength of the investments while considering the liquidity needs of BHS.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

12. Investments

Total investment return for the years ended December 31 is summarized as follows:

	2022	2021
Investment return:		
Net unrealized (losses) on investments	\$ (90,175)	\$ (2,442)
Net realized gains on investments	17,968	54,593
Net equity earnings on alternative investments	(22,240)	74,343
	\$ (94,447)	\$ 126,494
Reported as:		
Investment (losses) income, net (nonoperating)	\$ (92,938)	\$ 125,184
Investment (losses) income (net assets with donor restrictions)	(1,509)	1,310
	\$ (94,447)	\$ 126,494

The Corporation's investments are exposed to various kinds and levels of risk. Equity mutual funds expose the Corporation to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets. Performance risk is the risk associated with a corporation's operating performance. Fixed-income securities expose the Corporation to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed-income securities is affected, including those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell given securities. Liquidity risk tends to be higher for equities related to small capitalization companies. Due to the volatility of the capital markets, there is a reasonable possibility of changes in fair value, resulting in additional gains and losses in the near term.

Alternative investments have similar risks as income and equity securities, although there may be additional risks. These investments consist principally of noncontrolling interests in LLPs and LLCs. Because these funds are invested through LLCs and LLPs, the underlying net asset value of the investments is based on valuations provided by the managers. Nearly all of the hedge fund manager valuations are independently priced or verified by third-party administrators. Certain hedge fund investments also have restrictions on the timing of withdrawals, up to one year from December 31, 2022, which may reduce liquidity. Due to restrictions, private equity, real asset, and credit funds are not redeemable. However, the potential to sell interests in these investments in the secondary market prior to the end of the fund term does exist.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

13. Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, deferred compensation investments, and accounts payable and accrued expenses are reasonable estimates of their fair values due to the short-term nature of these financial instruments.

ASC 820-10-50-2, *Fair Value Measurement – Overall – Disclosure*, establishes a three-level valuation hierarchy. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or a liability as of the measurement date. The three levels are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in an active market and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

13. Fair Value of Financial Instruments (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following tables present the financial instruments carried as of December 31, by caption, on the consolidated balance sheets by the valuation hierarchy defined above for those instruments carried at fair value, as well as the alternative investments that are reported on the equity method of accounting.

	2022			Fair Value	Assets at Net Asset Value	Carrying Value
	Level 1	Level 2	Level 3			
Assets						
Short-term investments ^(a)	\$ 32,935	\$ –	\$ –	\$ 32,935	\$ –	\$ 32,935
Internally designated investments:						
Blended fund	238,944	–	–	238,944	–	238,944
Total mutual funds	238,944	–	–	238,944	–	238,944
Common stock ^(a)	18,323	–	–	18,323	–	18,323
Bonds ^(a)						
Alternatives:						
Hedge funds	–	–	–	–	70,130	70,130
Emerging markets	–	–	–	–	58,740	58,740
Private debt	–	–	–	–	907	907
Private equity	–	–	–	–	186,316	186,316
Real estate investment trust	–	–	–	–	73,807	73,807
Commingled funds	–	–	–	–	61,743	61,743
Other	–	–	–	–	16	16
Long/short equity	–	–	–	–	19,746	19,746
Relative value	–	–	–	–	47,826	47,826
Tactical trading	–	–	–	–	24,373	24,373
Total alternatives	–	–	–	–	543,604	543,604
Total internally designated investments	257,267	–	–	257,267	543,604	800,871

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

13. Fair Value of Financial Instruments (continued)

	2022					
	Level 1	Level 2	Level 3	Fair Value	Assets at Net Asset Value	Carrying Value
Assets (continued)						
Restricted cash ^(a)	\$ 5,708	\$ –	\$ –	\$ 5,708	\$ –	\$ 5,708
Externally designated investment – insurance trust:						
Fixed income ^(a)	2,760	–	–	2,760	–	2,760
Board-designated endowment:						
Mutual funds: ^(a)						
Equities	1,361	–	–	1,361	–	1,361
Blended fund	14,096	–	–	14,096	–	14,096
Fixed income ^{(a), (b)}	418	46	–	464	–	464
Equities ^(a)	2	–	–	2	–	2
Alternatives	–	–	–	–	13,483	13,483
Total board-designated endowment	15,877	46	–	15,923	13,483	29,406
Endowment:						
Mutual funds: ^(a)						
Blended fund	5,188	–	–	5,188	–	5,188
Equities ^(a)	1	–	–	1	–	1
Alternatives	–	–	–	–	4,963	4,963
Total endowment	5,189	–	–	5,189	4,963	10,152
Total	\$ 319,736	\$ 46	\$ –	\$ 319,782	\$ 562,050	\$ 881,832
Liabilities						
Swaps ^(c)	\$ –	\$ –	\$ (11,031)	\$ (11,031)	\$ –	\$ (11,031)
Total	\$ –	\$ –	\$ (11,031)	\$ (11,031)	\$ –	\$ (11,031)

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

13. Fair Value of Financial Instruments (continued)

	2021					
	Level 1	Level 2	Level 3	Fair Value	Equity Method	Carrying Value
Assets						
Short-term investments ^(a)	\$ 37,885	\$ –	\$ –	\$ 37,885	\$ –	\$ 37,885
Internally designated investments:						
Blended fund	400,642	–	–	400,642	–	400,642
Total mutual funds	400,642	–	–	400,642	–	400,642
Common stock ^(a)	64,676	–	–	64,676	–	64,676
Bonds ^(a)	131	–	–	131	–	131
Alternatives:						
Hedge funds	–	–	–	–	31,525	31,525
Emerging markets	–	–	–	–	77,240	77,240
Private equity	–	–	–	–	175,969	175,969
Real estate investment trust	–	–	–	–	38,654	38,654
Commingled funds	–	–	–	–	99,212	99,212
Other	–	–	–	–	75	75
Long/short equity	–	–	–	–	18,499	18,499
Relative value	–	–	–	–	41,645	41,645
Tactical trading	–	–	–	–	21,608	21,608
Total alternatives	–	–	–	–	504,427	504,427
Total internally designated investments	465,449	–	–	465,449	504,427	969,876

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

13. Fair Value of Financial Instruments (continued)

	2021					
	Level 1	Level 2	Level 3	Fair Value	Equity Method	Carrying Value
Assets (continued)						
Restricted cash ^(a)	\$ 5,983	\$ –	\$ –	\$ 5,983	\$ –	\$ 5,983
Externally designated investment – insurance trust:						
Fixed income ^(a)	2,926	–	–	2,926	–	2,926
Board-designated endowment:						
Mutual funds: ^(a)						
Equities	1,679	–	–	1,679	–	1,679
Blended fund	19,067	–	–	19,067	–	19,067
Fixed income ^{(a), (b)}	483	53	–	536	–	536
Alternatives	–	–	–	–	12,309	12,309
Total board-designated endowment	21,229	53	–	21,282	12,309	33,591
Endowment:						
Mutual funds: ^(a)						
Blended fund	6,499	–	–	6,499	–	6,499
Alternatives	–	–	–	–	4,197	4,197
Total endowment	6,499	–	–	6,499	4,197	10,696
Total	\$ 539,971	\$ 53	\$ –	\$ 540,024	\$ 520,933	\$1,060,957
Liabilities						
Swaps ^(c)	\$ –	\$ –	\$ (16,884)	\$ (16,884)	\$ –	\$ (16,884)
Total	\$ –	\$ –	\$ (16,884)	\$ (16,884)	\$ –	\$ (16,884)

(a) Pricing for mutual funds, short-term investments, equities, and government obligations is based on the open market and is valued on a daily basis.

(b) Pricing is based on the fair value of the securities and is valued on a monthly basis. Information used to value this account is provided by International Data Corp. (IDC). In the event that a security is not actively traded in the open market, the characteristics are matched to a comparable issue from the IDC data to appropriately value the holding.

(c) Pricing is based on discounted cash flows to reflect a credit spread adjustment to the LIBOR discount curve in order to reflect “nonperformance” risk. The credit spread adjustment is derived from how other comparable entities’ bonds price and trade in the market. As the credit spread adjustment is a significant component of the swap valuation and is an unobservable input, the swaps have been classified as Level 3.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

13. Fair Value of Financial Instruments (continued)

The following table sets forth a summary of changes in the fair value of the Corporation's Level 3 swaps for the years ended December 31:

	2022	2021
Balance, beginning of year	\$ (16,884)	\$ (18,302)
Unrealized gains, net	5,853	1,789
Realized losses, net	–	(60)
Sales of swaps	–	(311)
Balance, end of year	\$ (11,031)	\$ (16,884)

For the year ended December 31, 2022, the Corporation recorded approximately \$5,853 in nonoperating losses, which primarily relates to gains of \$5,593 due to the change in the swaps' value and gains of \$260 to reflect the fair value of the uncollateralized portion of the swap balance. For the year ended December 31, 2021, the Corporation recorded approximately \$1,789 in nonoperating losses, which primarily relates to gains of \$1,926 due to the change in the swaps' value and losses of \$508 to reflect the fair value of the uncollateralized portion of the swap balance.

14. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to this and general and administrative functions for the years ended December 31 are as follows:

	2022			2021		
	Health Care Services	Administrative Functions	Total	Health Care Services	Administrative Functions	Total
Salaries and wages	\$ 587,177	\$ 52,808	\$ 639,985	\$ 497,920	\$ 49,326	\$ 547,246
Employee benefits	107,552	15,322	122,874	106,910	18,225	125,135
Supplies and other	318,408	10,727	329,135	290,545	10,054	300,599
Professional fees and purchased services	104,745	43,258	148,003	92,850	39,024	131,874
Depreciation and amortization	53,018	10,327	63,345	53,022	9,688	62,710
Interest	6,663	204	6,867	6,744	(150)	6,594
Total	\$1,177,563	\$ 132,646	\$1,310,209	\$1,047,991	\$ 126,167	\$1,174,158

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

15. Commitments

BMG was a guarantor for a portion of a loan of an unconsolidated joint venture, Valparaiso Medical Development, LLC, in which BMG recorded an equity interest. In 2022, BMG sold its interest in Valparaiso Medical Development, LLC (VMD). The portion of debt guaranteed by BMG was a maximum of \$0 and \$6,392 at December 31, 2022 and 2021, respectively. The loan was collateralized by the assets, including the facility and land, held by VMD. No amounts have been paid or accrued pursuant to this guarantee as of December 31, 2022 or 2021.

The Corporation has total commitments to invest \$341,700 in certain hedge funds and alternative investments. During the years ended December 31, 2022 and 2021, the Corporation invested approximately \$57,495 and \$32,604, respectively. The Corporation had a remaining unfunded commitment of approximately \$114,761 at December 31, 2022.

The Corporation has entered into various construction projects including related commitments to construction managers, architects and other vendors. The commitments under these agreements was approximately \$99,156 of which approximately \$17,819 was paid at December 31, 2022. The Corporation has made additional payments related to these projects subsequent to December 31, 2022, and through the date of this report of approximately \$3,405.

16. Professional Liability Insurance

The Corporation is involved in lawsuits and various governmental investigations, audits, reviews, and administrative proceedings arising in the ordinary course of business. Additionally, the Corporation may be subject to additional claims alleging professional liability for medical malpractice. The Corporation has a claims-made policy that covers all entities and has a \$25,000 deductible per claim. Historically, MHSB and EGH have obtained separate professional liability insurance coverage under claims-made policies. The claims-made policy covers all years other than years that were self-funded. MHSB was self-funded for its professional and general liability coverage for the period from December 1, 2003 to November 30, 2009. EGH was self-funded for its professional and general liability coverage for the period from March 1, 2010 to April 1, 2012. The Indiana Medical Malpractice Act has provided recovery of up to \$1,250, per occurrence, with the first \$250 covered by the respective entity, for claims prior to July 1, 2017. For the period from July 1, 2017 to June 30, 2019, the coverage limit was \$1,650, per occurrence, with the first \$400 covered by the respective entity. Effective July 1, 2019, the coverage limit was increased to

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

16. Professional Liability Insurance (continued)

\$1,800, per occurrence, with the first \$500 covered by the respective entity. MHSB maintains a trust fund for its self-insurance program, which it will continue to maintain until all claims have been settled. The fair value of the trust fund at December 31, 2022 and 2021 was approximately \$2,760 and \$2,926, respectively. The amount of malpractice and general liability claims, including a component for incurred but not reported claims, was approximately \$4,832 and \$4,873, gross of an insurance recoverable at December 31, 2022 and 2021, respectively, which is included in other liabilities. The interest rate used to discount these claims was 3% at December 31, 2022 and 2021. In addition, at December 31, 2022 and 2021, the Corporation recognized a recoverable insurance asset of approximately \$4,287, which is included in deferred charges and other assets.

17. Income Taxes

The Corporation and its related affiliates, except for BHV, have been determined to qualify as exempt from federal income tax under Section 501(a) as organizations described in Section 501(c)(3) of the Code.

Most of the income received by the Corporation and its related affiliates, except for BHV, is exempt from taxation, as the income is related to the mission of the organization. Accordingly, there is no material provision for income tax for these entities. However, some of the income received by exempt entities is subject to taxation as unrelated business income. The Corporation and its subsidiaries file federal and various state income tax returns in the United States.

ASC 740, *Income Taxes*, requires that realization of an uncertain income tax position is more likely than not (i.e., greater than 50% likelihood of receiving a benefit) before it is recognized in the consolidated financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. This interpretation also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits. No amount was recorded for the years ended December 31, 2022 or 2021.

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

18. Net Assets Without Donor Restrictions

Net assets without donor restrictions are comprised of the following at December 31:

	<u>2022</u>	<u>2021</u>
Undesignated	\$ 1,591,458	\$ 1,687,100
Board-designated endowment	29,406	33,591
	<u>\$ 1,620,864</u>	<u>\$ 1,720,691</u>

Board-Designated Endowment – The Board has designated a portion of net assets without donor restrictions as a board-designated endowment for the purpose of funding BHF’s operational expenses.

19. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31:

	<u>2022</u>	<u>2021</u>
Net assets currently available for:		
Children’s services	\$ 2,424	\$ 2,786
Education	3,003	2,708
Patient care	9,276	10,551
System priorities	1,423	1,427
Community impact	617	359
Quasi-endowments	424	426
	<u>\$ 17,167</u>	<u>\$ 18,257</u>

The various purposes of the above donor-restricted amounts are as follows:

Children’s services – Programs and services for pediatric patients throughout the Corporation

Education – Formal and continuing education

Patient care – Specific patient care services lines (i.e., cancer, cardiac, and trauma)

Beacon Health System, Inc. and Affiliated Corporations

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

19. Net Assets With Donor Restrictions (continued)

System priorities – Specific system initiatives as determined throughout the Corporation requiring formal approval and funding

Community impact – Initiatives that focus on preventive care and education throughout the community

Quasi-endowments – Designated to be held in perpetuity, income generated to be used for indigent care and/or area of greatest need

20. Subsequent Events

The Corporation evaluated events and transactions occurring subsequent to December 31, 2022 through March 9, 2023, the date of issuance of the accompanying consolidated financial statements. During this period, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements.

Supplementary Information



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Report of Independent Auditors on Supplementary Information

The Board of Directors
Beacon Health System, Inc. and Affiliated Corporations

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying details of consolidated balance sheets and details of consolidated statements of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

March 9, 2023

Beacon Health System, Inc. and Affiliated Corporations

Details of Consolidated Balance Sheet (In Thousands)

December 31, 2022

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.	Three Rivers Health Systems, Inc.
Assets										
Current assets:										
Cash and cash equivalents	\$ 70,805	\$ -	\$ 21,953	\$ 3,968	\$ 245	\$ 2,003	\$ 11,227	\$ 19,267	\$ 2,113	\$ 10,029
Short-term investments	32,935	-	15,941	-	1,087	-	-	15,907	-	-
Patient accounts receivable	217,013	(4,022)	116,995	30,721	-	421	60,168	1,696	4,179	6,855
Due from third-party payors	34,409	-	31,164	354	-	-	777	-	-	2,114
Other receivables	37,603	12	10,156	3,363	105	344	5,431	17,359	166	667
Other current assets	1,060	-	735	-	-	-	-	226	99	-
Inventories	31,329	-	18,016	-	-	426	8,866	2,680	368	973
Prepaid expenses	22,502	-	963	925	-	1	517	19,679	20	397
Due from affiliates	-	(29,241)	-	18	-	-	-	29,223	-	-
Total current assets	447,656	(33,251)	215,923	39,349	1,437	3,195	86,986	106,037	6,945	21,035
Assets limited as to use:										
Internally designated investments	800,871	-	-	-	-	-	-	800,871	-	-
Restricted cash	5,708	-	-	-	5,708	-	-	-	-	-
Externally designated investments – insurance trust	2,760	-	2,730	20	-	10	-	-	-	-
Board-designated endowment	29,406	-	-	-	29,406	-	-	-	-	-
Endowment and temporarily restricted investments	10,152	-	-	-	2,338	-	7,814	-	-	-
	848,897	-	2,730	20	37,452	10	7,814	800,871	-	-
Property and equipment:										
Land	68,572	-	26,982	5,675	-	-	4,553	24,355	779	6,228
Buildings and improvements	928,917	-	530,738	75,343	94	1,931	264,767	36,808	9,991	9,245
Furniture and equipment	523,444	-	255,015	34,069	164	2,134	136,471	86,375	4,681	4,535
Construction-in-progress	54,537	-	21,106	3,505	-	-	11,341	18,426	7	152
	1,575,470	-	833,841	118,592	258	4,065	417,132	165,964	15,458	20,160
Less allowances for depreciation and amortization	845,442	-	476,619	53,216	223	3,132	244,855	60,416	4,632	2,349
	730,028	-	357,222	65,376	35	933	172,277	105,548	10,826	17,811
Deferred charges and other assets	83,553	(12,367)	6,648	12,956	12	24,948	3,692	45,624	2,040	-
Interest in net assets of recipient organization	-	(9,353)	9,353	-	-	-	-	-	-	-
Total assets	\$ 2,110,134	\$ (54,971)	\$ 591,876	\$ 117,701	\$ 38,936	\$ 29,086	\$ 270,769	\$ 1,058,080	\$ 19,811	\$ 38,846

Beacon Health System, Inc. and Affiliated Corporations

Details of Consolidated Balance Sheet (continued) (In Thousands)

December 31, 2022

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.	Three Rivers Health Systems, Inc.
Liabilities and net assets										
Current liabilities:										
Accounts payable	\$ 73,905	\$ 12	\$ 25,332	\$ 18,776	\$ 9	\$ 318	\$ 15,898	\$ 10,052	\$ 787	\$ 2,721
Accrued salaries and benefits	58,252	-	24,489	11,840	-	-	11,107	8,787	-	2,029
Accrued expenses	944	(4,022)	1,122	-	-	-	795	2,422	52	575
Other current liabilities	1,076	-	748	-	-	-	-	229	99	-
Due to third-party payors	7,279	-	2,164	-	-	-	2,597	-	(44)	2,562
Due to affiliates	-	(29,241)	68	-	-	29,173	-	-	-	-
Current maturities of long-term debt	16,533	-	5,320	-	-	-	3,830	5,907	1,077	399
Total current liabilities	157,989	(33,251)	59,243	30,616	9	29,491	34,227	27,397	1,971	8,286
Noncurrent liabilities:										
Long-term debt, less current maturities	288,829	-	152,790	43	-	-	52,685	71,475	8,902	2,934
Other liabilities	14,254	-	9,576	23	-	11	1,652	2,711	281	-
Interest rate and basis swaps	11,031	-	11,031	-	-	-	-	-	-	-
Total liabilities	472,103	(33,251)	232,640	30,682	9	29,502	88,564	101,583	11,154	11,220
Net assets:										
Without donor restrictions	1,620,864	(12,367)	349,883	87,019	29,574	(416)	174,391	956,497	8,657	27,626
With donor restrictions	17,167	(9,353)	9,353	-	9,353	-	7,814	-	-	-
Total net assets	1,638,031	(21,720)	359,236	87,019	38,927	(416)	182,205	956,497	8,657	27,626
Total liabilities and net assets	\$ 2,110,134	\$ (54,971)	\$ 591,876	\$ 117,701	\$ 38,936	\$ 29,086	\$ 270,769	\$ 1,058,080	\$ 19,811	\$ 38,846

Beacon Health System, Inc. and Affiliated Corporations

Details of Consolidated Balance Sheet (In Thousands)

December 31, 2021

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.	Three Rivers Health Systems, Inc.
Assets										
Current assets:										
Cash and cash equivalents	\$ 104,694	\$ –	\$ 16,620	\$ 12,839	\$ 249	\$ 1,299	\$ 12,291	\$ 53,648	\$ 1,935	\$ 5,813
Short-term investments	37,885	–	12	–	1,386	–	–	21,042	–	15,445
Patient accounts receivable	236,710	(4,114)	133,464	30,106	–	338	65,830	1,951	4,647	4,488
Due from third-party payors	23,466	–	21,488	1,159	–	–	671	–	148	–
Other receivables	13,448	(818)	2,356	1,559	106	323	335	9,157	12	418
Other current assets	1,828	–	735	–	–	703	–	291	99	–
Inventories	33,022	–	17,996	–	–	197	8,767	4,908	282	872
Prepaid expenses	23,238	–	2,378	883	–	5	1,370	17,426	50	1,126
Due from affiliates	–	(13,598)	1,013	319	–	–	–	12,266	–	–
Total current assets	474,291	(18,530)	196,062	46,865	1,741	2,865	89,264	120,689	7,173	28,162
Assets limited as to use:										
Internally designated investments	969,876	–	–	–	–	–	–	969,745	–	131
Restricted cash	5,983	–	–	–	5,856	–	–	–	–	127
Externally designated investments – insurance trust	2,926	–	2,895	21	–	10	–	–	–	–
Board-designated endowment	33,591	–	–	–	33,591	–	–	–	–	–
Endowment and temporarily restricted investments	10,696	–	–	–	1,834	–	8,862	–	–	–
	1,023,072	–	2,895	21	41,281	10	8,862	969,745	–	258
Property and equipment:										
Land	71,843	–	26,899	6,137	–	–	3,846	28,492	779	5,690
Buildings and improvements	894,759	–	520,700	53,748	94	1,472	264,535	36,289	9,594	8,327
Furniture and equipment	486,044	–	243,140	26,721	164	2,075	129,992	77,019	3,770	3,163
Construction-in-progress	37,207	–	12,218	12,738	–	4	2,223	9,424	452	148
	1,489,853	–	802,957	99,344	258	3,551	400,596	151,224	14,595	17,328
Less allowances for depreciation and amortization	785,609	–	450,546	46,738	205	2,985	230,313	50,317	3,793	712
	704,244	–	352,411	52,606	53	566	170,283	100,907	10,802	16,616
Deferred charges and other assets	73,834	(12,367)	6,308	17,355	112	8,683	3,692	47,900	2,139	12
Interest in net assets of recipient organization	–	(9,395)	9,395	–	–	–	–	–	–	–
Total assets	\$ 2,275,441	\$ (40,292)	\$ 567,071	\$ 116,847	\$ 43,187	\$ 12,124	\$ 272,101	\$ 1,239,241	\$ 20,114	\$ 45,048

Beacon Health System, Inc. and Affiliated Corporations

Details of Consolidated Balance Sheet (continued) (In Thousands)

December 31, 2021

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.	Three Rivers Health Systems, Inc.
Liabilities and net assets										
Current liabilities:										
Accounts payable	\$ 82,081	\$ (818)	\$ 31,017	\$ 18,004	\$ 33	\$ 100	\$ 20,578	\$ 9,257	\$ 862	\$ 3,048
Accrued salaries and benefits	62,727	-	26,449	11,295	-	-	12,306	10,523	-	2,154
Accrued expenses	3,435	(4,114)	993	-	-	-	647	1,773	423	3,713
Other current liabilities	1,816	-	737	-	-	690	-	290	99	-
Due to third-party payors	68,294	-	36,662	-	-	-	24,324	-	2,003	5,305
Due to affiliates	-	(13,598)	-	-	-	9,380	5	546	3,667	-
Current maturities of long-term debt	13,289	-	5,007	-	-	-	3,613	2,985	1,061	623
Total current liabilities	231,643	(18,530)	100,865	29,299	33	10,170	61,473	25,374	8,115	14,843
Noncurrent liabilities:										
Long-term debt, less current maturities	270,165	-	126,023	65	-	-	56,488	74,182	9,979	3,428
Other liabilities	17,802	-	10,157	23	-	2,510	1,676	3,056	380	-
Interest rate and basis swaps	16,884	-	16,884	-	-	-	-	-	-	-
Total liabilities	536,494	(18,530)	253,929	29,387	33	12,680	119,637	102,612	18,474	18,271
Net assets:										
Without donor restrictions	1,720,691	(12,367)	303,747	87,460	33,759	(556)	143,602	1,136,629	1,640	26,777
With donor restrictions	18,257	(9,395)	9,395	-	9,395	-	8,862	-	-	-
Total net assets	1,738,948	(21,762)	313,142	87,460	43,154	(556)	152,464	1,136,629	1,640	26,777
Total liabilities and net assets	\$ 2,275,442	\$ (40,292)	\$ 567,071	\$ 116,847	\$ 43,187	\$ 12,124	\$ 272,101	\$ 1,239,241	\$ 20,114	\$ 45,048

Beacon Health System, Inc. and Affiliated Corporations

Details of Consolidated Statement of Operations and Changes in Net Assets (In Thousands)

Year Ended December 31, 2022

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.	Three Rivers Health Systems, Inc.
Unrestricted revenue, gains, and other support										
Patient service revenue	\$ 1,205,384	\$ –	\$ 631,470	\$ 150,665	\$ –	\$ 3,263	\$ 323,007	\$ 10,102	\$ 22,648	\$ 64,229
Other revenue	88,619	(19,422)	35,729	27,308	1,267	4,181	17,872	14,491	879	6,314
Net assets released from restrictions used for operations	1,911	–	819	23	110	–	64	755	–	140
	1,295,914	(19,422)	668,018	177,996	1,377	7,444	340,943	25,348	23,527	70,683
Expenses										
Salaries and wages	639,985	–	221,364	194,926	663	3,093	122,600	58,107	10,699	28,533
Employee benefits	122,874	(241)	44,900	29,466	127	758	22,552	17,146	2,246	5,920
Supplies and other	329,135	(4,798)	159,150	34,693	331	2,386	99,054	16,626	4,394	17,299
Management fees	–	–	67,623	18,485	192	699	36,017	(131,626)	2,620	5,990
Professional fees and purchased services	148,003	(14,383)	42,946	13,242	133	260	28,507	58,283	4,449	14,566
Depreciation and amortization	63,345	–	28,798	5,086	17	147	16,208	10,516	936	1,637
Interest	6,867	–	5,257	–	–	–	1,174	204	153	79
	1,310,209	(19,422)	570,038	295,898	1,463	7,343	326,112	29,256	25,497	74,024
(Loss) income from operations	(14,295)	–	97,980	(117,902)	(86)	101	14,831	(3,908)	(1,970)	(3,341)
Nonoperating (expenses) income										
Investment (losses) income, net	(92,938)	–	(115)	50	(4,181)	–	15	(88,846)	71	68
Unrealized gains on swap transactions, net	5,853	–	5,853	–	–	–	–	–	–	–
Gain on lease termination	39	–	–	–	–	39	–	–	–	–
Revenue and gains (less than) in excess of expenses	(101,341)	–	103,718	(117,852)	(4,267)	140	14,846	(92,754)	(1,899)	(3,273)

Beacon Health System, Inc. and Affiliated Corporations

Details of Consolidated Statement of Operations and Changes in Net Assets (continued) (In Thousands)

Year Ended December 31, 2022

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.	Three Rivers Health Systems, Inc.
Net assets without donor restrictions										
Revenue and gains (less than) in excess of expenses	\$ (101,341)	\$ -	\$ 103,718	\$ (117,852)	\$ (4,267)	\$ 140	\$ 14,846	\$ (92,754)	\$ (1,899)	\$ (3,273)
Net assets released from restrictions used for capital purposes	1,499	-	1,390	90	-	-	16	-	3	-
Net assets released from restriction by donor and other	139	-	-	-	-	-	-	-	-	139
Other	-	-	(58,972)	117,321	83	-	15,926	(87,378)	8,913	4,107
(Decrease) increase in net assets without donor restrictions	(99,703)	-	46,136	(441)	(4,184)	140	30,788	(180,132)	7,017	973
Net assets with donor restrictions										
Purpose-restricted contributions	3,705	-	-	-	3,690	-	-	-	-	15
Investment (losses) income	(1,509)	-	-	-	(462)	-	(1,047)	-	-	-
Reclass of contribution restriction by donor	-	-	-	-	-	-	-	-	-	-
Net assets released from restrictions used for operating and capital purposes	(3,410)	-	-	-	(3,271)	-	-	-	-	(139)
Change in interest in recipient organization	-	42	(42)	-	-	-	-	-	-	-
(Decrease) increase in net assets with donor restrictions	(1,214)	42	(42)	-	(43)	-	(1,047)	-	-	(124)
Change in net assets	(100,917)	42	46,094	(441)	(4,227)	140	29,741	(180,132)	7,017	849
Net assets at beginning of year	1,738,948	(21,762)	313,142	87,460	43,154	(556)	152,464	1,136,629	1,640	26,777
Net assets at end of year	\$ 1,638,031	\$ (21,720)	\$ 359,236	\$ 87,019	\$ 38,927	\$ (416)	\$ 182,205	\$ 956,497	\$ 8,657	\$ 27,626

Beacon Health System, Inc. and Affiliated Corporations

Details of Consolidated Statement of Operations and Changes in Net Assets (In Thousands)

Year Ended December 31, 2021

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.	Three Rivers Health Systems, Inc.
Unrestricted revenue, gains, and other support										
Patient service revenue	\$ 1,121,775	\$ –	\$ 611,687	\$ 137,484	\$ –	\$ 2,978	\$ 320,279	\$ 10,548	\$ 23,479	\$ 15,320
Other revenue	67,286	(10,597)	24,780	13,936	1,263	2,205	12,985	14,148	346	8,220
Net assets released from restrictions used for operations	1,228	–	500	97	123	–	187	321	–	–
	<u>1,190,289</u>	<u>(10,597)</u>	<u>636,967</u>	<u>151,517</u>	<u>1,386</u>	<u>5,183</u>	<u>333,451</u>	<u>25,017</u>	<u>23,825</u>	<u>23,540</u>
Expenses										
Salaries and wages	547,246	–	196,953	163,057	612	2,856	112,315	53,827	8,521	9,105
Employee benefits	125,135	(450)	46,082	30,403	237	799	23,989	20,067	2,227	1,781
Supplies and other	300,598	(4,191)	154,384	30,506	334	1,767	92,976	15,714	4,568	4,540
Management fees	–	–	53,441	17,730	198	515	32,453	(107,567)	2,680	550
Professional fees and purchased services	131,874	(5,956)	44,791	11,844	106	284	28,730	45,468	4,529	2,078
Depreciation and amortization	62,711	–	28,646	5,465	18	145	16,718	9,878	1,033	808
Interest	6,594	–	5,444	–	–	–	823	(150)	402	75
	<u>1,174,158</u>	<u>(10,597)</u>	<u>529,741</u>	<u>259,005</u>	<u>1,505</u>	<u>6,366</u>	<u>308,004</u>	<u>37,237</u>	<u>23,960</u>	<u>18,937</u>
(Loss) income from operations	16,131	–	107,226	(107,488)	(119)	(1,183)	25,447	(12,220)	(135)	4,603
Nonoperating (expenses) income										
Investment (losses) income, net	125,184	–	12	54	3,479	–	123	121,463	46	7
Unrealized gains on swap transactions, net	1,789	–	1,789	–	–	–	–	–	–	–
Realized loss on swap termination	(60)	–	(60)	–	–	–	–	–	–	–
Implied contribution gain on acquisition	22,167	–	–	–	–	–	–	–	–	22,167
Gain on bond refunding	5,030	–	3,535	–	–	–	1,495	–	–	–
Revenue and gains (less than) in excess of expenses	<u>170,241</u>	<u>–</u>	<u>112,502</u>	<u>(107,434)</u>	<u>3,360</u>	<u>(1,183)</u>	<u>27,065</u>	<u>109,243</u>	<u>(89)</u>	<u>26,777</u>

Beacon Health System, Inc. and Affiliated Corporations

Details of Consolidated Statement of Operations and Changes in Net Assets (continued) (In Thousands)

Year Ended December 31, 2021

	Consolidated	Eliminations	Memorial Hospital of South Bend, Inc.	Beacon Medical Group, Inc.	Beacon Health Foundation, Inc.	Beacon Health Ventures, Inc.	Elkhart General Hospital, Inc.	Beacon Health System, Inc.	Community Hospital of Bremen, Inc.	Three Rivers Health Systems, Inc.
Net assets without donor restrictions										
Revenue and gains (less than) in excess of expenses	\$ 170,241	\$ –	\$ 112,502	\$ (107,434)	\$ 3,360	\$ (1,183)	\$ 27,065	\$ 109,243	\$ (89)	\$ 26,777
Net assets released from restrictions used for capital purposes	309	–	216	7	–	–	57	29	–	–
Net assets released from restriction by donor and other	–	–	–	–	–	–	–	–	–	–
Other	–	–	(111,729)	119,335	136	–	(29,320)	21,578	–	–
(Decrease) increase in net assets without donor restrictions	170,550	–	989	11,908	3,496	(1,183)	(2,198)	130,850	(89)	26,777
Net assets with donor restrictions										
Purpose-restricted contributions	3,127	–	–	–	3,127	–	–	–	–	–
Investment (losses) income	1,310	–	–	–	342	–	968	–	–	–
Reclass of contribution restriction by donor	–	–	–	–	–	–	–	–	–	–
Net assets released from restrictions used for operating and capital purposes	(1,537)	–	–	–	(1,537)	–	–	–	–	–
Change in interest in recipient organization	–	(1,931)	1,931	–	–	–	–	–	–	–
(Decrease) increase in net assets with donor restrictions	2,900	(1,931)	1,931	–	1,932	–	968	–	–	–
Change in net assets	173,450	(1,931)	2,920	11,908	5,428	(1,183)	(1,230)	130,850	(89)	26,777
Net assets at beginning of year	1,565,498	(19,831)	310,222	75,552	37,726	627	153,694	1,005,779	1,729	–
Net assets at end of year	\$ 1,738,948	\$ (21,762)	\$ 313,142	\$ 87,460	\$ 43,154	\$ (556)	\$ 152,464	\$ 1,136,629	\$ 1,640	\$ 26,777

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